

Message Text

LIMITED OFFICIAL USE

PAGE 01 MANILA 03470 01 OF 02 250830Z

20

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 IO-14 H-03 L-03 PRS-01

PA-04 USIA-15 CEA-02 SPC-03 AID-20 EB-11 NSC-07

RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 AGR-20 IGA-02 /198 W
----- 076269

P 250647Z MAR 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2138

INFO AMEMBASSY KATHMANDU PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 3470

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/75

TAGS: EAID, EFIN, NP

SUBJECT: PROPOSED ADB LOAN AND TECHNICAL ASSISTANCE - SECOND
AGRICULTURAL CREDIT PROJECT - NEPAL

REF: MANILA 2034

SUMMARY: ADB MANAGEMENT PROPOSES US\$3 MILLION
EQUIVALENT LOAN FROM SPECIAL FUNDS AND TECHNICAL ASSISTANCE
GRANT OF US\$140,000 TO HIS MAJESTY'S GOVT OF NEPAL
(HMGN) FOR RELENDING TO THE AGRICULTURAL DEVELOPMENT
BANK OF NEPAL (ADBN) TO FINANCE FOREX COSTS OF SHORT,
MEDIUM AND LONG-TERM SUBLOANS TO FARMERS AND FARM
COOPERATIVES TO DEVELOP FARM-LEVEL PRODUCTION, STORAGE,
PROCESSING AND MARKETING INFRASTRUCTURE DURING NEXT THREE
YEARS. LOAN WILL AUGMENT ADBN'S FOREX RESOURCES TO
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 03470 01 OF 02 250830Z

FACILITATE PRODUCTION OF BOTH CEREAL GRAINS AND CASH CROPS.

LOAN WOULD BE SECOND TO ADBN FROM BANK. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R21-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES MARCH 15. BOARD CONSIDERATION SCHEDULED APRIL 2.

2. ADB MANAGEMENT PROPOSING US\$3 MILLION LOAN FROM SPECIAL FUNDS RESOURCES AND TECHNICAL ASSISTANCE GRANT US\$140,000 TO HIS MAJESTY'S GOVT OF NEPAL (HMGN) FOR RELENDING TO AGRICULTURAL DEVELOPMENT BANK OF NEPAL (ADBN). PROCEEDS WILL AUGMENT ADBN'S FOREX RESOURCES FOR EXTENSION OF SUBLOANS FOR THREE YEARS TO INDIVIDUAL FARMERS, FARM COOPERATIVES, AND AGRICULTURAL CORPORATE BODIES. AMORTIZATION IS FOR 25 YEARS, INCLUDING A GRACE PERIOD OF FIVE YEARS, WITH FIXED REPAYMENT SCHEDULE OF HALF-YEAR INSTALLMENTS THEREAFTER. INTEREST RATE CHARGED TO HMGN IS TWO PERCENT PER ANNUM, SUBJECT TO BOARD DECISION ON PROPOSED NEW LENDING TERMS FOR SPECIAL FUNDS LOANS. IN EVENT BOARD ADOPTS MORE FAVORABLE TERMS FOR SUCH LOANS, SUCH TERMS WILL APPLY TO THIS LOAN. HMGN WILL RELEND PROCEEDS TO ADBN AT SAME RATE OF INTEREST. ADBN HAS ESTABLISHED DIFFERENTIAL LENDING RATES ACCORDING TO LOAN DURATION AND CATEGORY OF BORROWER, RANGING FROM 3.5 PERCENT OT 9 PERCENT PER ANNUM. HMGN TO BE BORROWER AND ADBN TO BE EXECUTING AGENCY.

3. ALTHOUGH AGRICULTURE IS MAINSTAY OF NEPALESE ECONOMY, OVERWHELMING MAJORITY OF PRODUCERS ARE SUBSISTENCE FARMERS WHOS PRODUCTIVE POTENTIAL IS CONSTRAINED BY LACK OF INFRASTRUCTURE AND FACILITIES FOR CREDIT, PRODUCTION TECHNOLOGY, STORAGE, PROCESSING, MARKETING, TRANSPORT AND RELATED REQUIREMENTS. UNCERTAIN WEATHER, RUGGED TERRAIN AND TOPOGRAPHY, LIMITED TRANSPORT AND STORAGE FACILITIES HAVE AGGRAVATED THE LACK OF HUMAN AND PHYSICAL INFRASTRUCTURE ABLE TO DELIVER MODERN INPUTS AND TECHNIQUES NEEDED TO INCREASE YIELDS. SPOILAGE AND INABLILITY TO MARKET PRODUCTS ADVERSELY AFFECT INCOME EVEN WHEN CROPS ARE HARVESTED. THE CURRENT FOURTH FIVE-YEAR PLAN (1970/71-1974/75) EMPHASIZES TRANSPORT AND AGRICULTURE SECTORS, AIMING FOR INCREASES IN BOTH CEREAL GRAIN PRODUCTION (I.E. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 03470 01 OF 02 250830Z

PADDY, WHEAT AND MAIZE) AND CASH CROPS (I.E. SUGAR CANE, JUTE, TOBACCO, OIL SEED).

4. LACK OF AGRICULTURAL CREDIT HAS BEEN IDENTIFIED IN NATIONAL RURAL CREDIT SURVEY CONDUCTED (1969/70) BY NEPAL RASTRA BANK (CENTRAL BANK) AS MAJOR CONSTRAINT TO ATTAINMENT HIGHER PRODUCTION TARGETS. FIRST BANK LOAN OF \$2.4 MILLION AND TECHNICAL ASSISTANCE (TA) PROVIDED

TO ADBN IN 1970 WAS DESIGNED TO ADDRESS THIS NEED BY PROVIDING FOREX TO FINANCE TRACTORS AND IMPLEMENTS; IRRIGATION PUMPSETS, OFFICE EQUIPMENT AND SERVICE VEHICLES FOR PROJECTION AREAS WITH DEVELOPMENT POTENTIAL. TA WAS ADDRESSED TO AREAS OF BANK MANAGEMENT, LOAN OPERATIONS AND AGRICULTURAL ECONOMICS. HOWEVER, UNEXPECTED AND LENGTHY DELAYS IN PROCUREMENT WERE ENCOUNTERED IN IMPLEMENTATION OF FIRST BANK LOAN.

5. PROCUREMENT DIFFICULTIES ENCOUNTERED IN FIRST LOAN LET TO NECESSITY REASSIGN DELAYED TRACTORS TO ADJACENT UNITS (REFTEL); RETENDERING ON PUMPSETS WITH FARMERS OBLIGED PAY HIGHER PRICES AS CONSEQUENCE ADBN'S UTILIZATION OF OWN RESOURCES PENDING ARRIVAL OF BANK-FINANCED UNITS. SOME PROCUREMENTS DIFFICULTIES ATTRIBUTED DESIGNATION SEPARATE ENTITY, AGRICULTURAL SUPPLY CORPORATION (NOW CALLED AGRICULTURAL MARKETING CORPORATION) AS PROCURMENT AGENCY.

6. ADBN, WHEN ESTABLISHED 1968, BEGAN WITH HANDICAP OF ACQUIRING ASSETS AND LIABILITIES DEFUNCT COOPERATIVE BANK WHICH WAS DISSOLVED WHEN IT FAILED ACCOMPLISH OBJECTIVES AND HAD UNSATISFACTORY LOAN ARREARAGE LEVELS. IN ADDITION PROVIDING FINANCE TO AG SECTOR, ADBN SINCE 1971/72 HAS MANAGED 143 PRIMARY (BILLAGE) AND 10 UNION (DISTRICT) COOPERATIVES AS OUTCOME HMGN DECISION REVITALIZE CO-OPS AS AGRICULTURAL DEVELOPMENT VEHICLE. IN JULY 1973, ADBN ABSORBED ANOTHER CREDIT INSTITUTION, LAND REFORM SAVINGS CORPORATION (LRSC), LEAVING ADBN NOW EXCLUSIVE NATIONAL FINANCE INSTITUTION FOR AG SECTOR. ADBN LENDS TO INDIVIDUAL FARMERS, COOPERATIVES, VILLAGE COMMITTEES AND CORPORATE BODIES, ALSO ACCEPTS DEPOSITS, PROVIDES OTHER COMMERCIAL BANKING SERVICES IN RURAL AREAS, WITH LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MANILA 03470 01 OF 02 250830Z

SUBSIDIES FROM RASTRA BANK; MANAGES COOPERATIVES.

7. OF PAID UP CAPITAL, GOVT NOW HOLDS NRS. 44.8 MILLION (86 PERCENT); RASTRA BANK NRS. 5.0 MILLION; OTHERS, NRS. 1.1 MILLION. FIRST CREDIT PROJECT LOAN PROVIDED NRS. 10 MILLION ANNUAL PAID-UP GOVT SHARE CAPITAL CONTRIBUTIONS: GOVT HAS APPROVED AMENDMENT ADBN ACT INCREASE AUTHORIZED CAPITAL TO NRS 100 MILLION. BANK HAS 44 FIELD OFFICES IN ADDITION TO HEAD OFFICE (BRANCHES, SUB-BRANCHES AND AGENTS). WITH STAFF ACQUIRED FROM LRSC MERGER, PERSONNEL NOW TOTAL 608. DURING PAST FIVE YEARS, ADBN DISBURSED NRS 100.3 MILLION IN LOANS, 61 PERCENT TO INDIVIDUALS, 30 PERCENT TO CO-OPS; REST TO

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 03470 02 OF 02 251048Z

11

ACTION TRSE-00

INFO OCT-01 EA-11 NEA-10 ISO-00 IO-14 L-03 H-03 PA-04

PRS-01 USIA-15 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

AGR-20 IGA-02 DRC-01 /198 W
----- 077202

P 250647Z MAR 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2139

INFO AMEMBASSY KATHMANDU PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 3470

USADB

FOR NAC AGENCIES

CORPORATE BODIES, CO-OPS NOW RECEIVING INCREASING SHARE OF LOANS. AGRI-PRODUCTION (MOSTLY SHORT-TERM), AND FARM MECHANIZATION/IRRIGATION (MOSTLY MEDIUM AND LONG-TERM) LOANS DOMINATE PORTFOLIO. SUBSIDY FROM RASTRA BANK IMPLEMENTED BY FEFINANCE SCHEME AT LOWER INTEREST RATES (2.5 TO 6 PERCENT) BY WHICH ADBN EARNS SPREAD OF 1 TO 4 PERCENT. BORROWINGS NOW ACCOUNT 30 PERCENT ADBN RESOURCES (SHARE CAPITAL 60 PERCENT); GOVT AGREES CONTINUE ANNUAL NRS 10 MILLION CONTRIBUTION NEXT FIVE YEARS (SIDE LTR NO. 4, PARA 1), THUS MAINTAINING LOW DEBT/EQUITY RATION NOW 1.45:1. LIQUIDITY POSITION CONSIDERED ADEQUATE; EXPECTED TO IMPROVE FROM LOAN REFLows. RATION NET PROFIT TO CAPITAL ONLY 0.5 PERCENT, ATTRIBUTED HIGH ADMIN COSTS ASSOCIATED MANY SMALL LOANS; EXPECTED TO IMPROVE TO 3.3 PERCENT WITH INCREASED VOLUMS BUSINESS. ADBN'S ARREARAGES, AFTER INITIAL IMPROVEMENTS, INCREASED

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 03470 02 OF 02 251048Z

TO 21 PERCENT OF OUTSTANDING LOANS, ATTRIBUTED TO TWO CONSECUTIVE YEARS OF DROUGHT, ADVERSE IMPACT ON ADBN OF LRSC OPERATIONS, NOW DISBANDED AND MERGED. ARREARAGES EXPECTED TO IMPROVE WITH BETTER WEATHER, MORE RIGOROUS ADBN COLLECTIONS BY STAFF SUPPORTED AND TRAINED BY BANK'S TA. SINCE ONE-FOURTH OF LRSC ASSETS (ABOUT NRS 22.2 MILLION) CONSIDERED DOUBTFUL, GOVT EVALUATION COMMITTEE DEFERRING DECISION THESE ACCOUNTS REVERT TO SEPARATE TRUST FUND UNIT RECOVERABLE AMOUNTS KNOWN. (SIDE LTR. NO. 4, PARA 2). ADBN INCREASING PROVISIONS FOR BAD DEBTS (SIDE LTR. NO. 3, PARA. 12).

8. ADBN ADOPTING REVISED POLICY STATEMENT IDENTIFYING SPECIFIC FIELD OF OPERATIONS; GUIDELINES FOR PROJECTS SELECTED TO FINANCE; ASSURANCES EXTENSION AND MARKETING SERVICES AVAILABLE TO SPECIFICALLY ELIGIBLE BORROWERS; ESTABLISHES CATEGORIES OF ACCEPTABLE LOANS WITH LOAN LIMITS OF NRS 150,000 (INDIVIDUALS); 500,000 (PRIMARY CO-OPS) AND 1,000,000 (UNION CO-OPS) ON ADB-PROVIDED FUNDS. STATEMENT ALSO PROVIDES FOR REASONABLE SECURITY AND MARGIN REQUIREMENTS AND ADBN AGREES SET ASIDE 10 PERCENT DISTRIBUTABLE EARNINGS UNTIL BAD DEBT RESERVE REACHES 20 PERCENT OF LOAN PORTFOLIO; ADDITIONAL 20 PERCENT TO GENERAL RESERVES UNTIL THESE EQUAL 10 PERCENT PAID-UP CAPITAL.

9. SUBLOANS EXPECTED TO FINANCE FOREX COSTS OF 125 PRIMARY (VILLAGE) COOPERATIVE WAREHOUSES; 10 UNION (DISTRICT) CO-OP WAREHOUSES, WEIGHING BALANCES 0.5-1 TON CAPACITY FOR EACH; 10 TRUCKS WITH 5-7 TON CAPACITY FOR UNION WAREHOUSES; STORAGE CAPACITY RANGING FROM 50 TO 350 TONS ACCORDING LOCATION; FOUR COLD STORAGE FACILITIES AT UNION CO-OPS, TWO OF 25-30 REFRIGERATION-TON CAPACITY, 500 TONS STORAGE, AND TWO OF 40-50 REFRIGERATION-TONS, 1,000 TONS CAPACITY FOR STORAGE OF POTATOES, FRUITS AND VEGETABLES AT BIRATNAGAR, BIRGUNJ, BWAIRAWA AND POKHARA. PLANTS TO EACH HAVE EXTRA AMMONIA COMPRESSOR; WATER PUMP AND STAND-BY DIESEL COUPLED TO COMPRESSOR; 150 TRACTORS (35 TO 55 HP MODELS), 150 CULTIVATORS, 75 HARROWS AND 15 PLOUGHS PLUS SPARES; 300 POWER TILLERS (2-WHEEL GARDEN TRACTORS) OF 6 TO 15 HP AND IMPLEMENTS; 120 LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 03470 02 OF 02 251048Z

MECHANICAL DRYERS, CABIN TYPE, 250 KG/BATCH CAPACITY, KEROSENE OR DIESEL-OIL FIRED FOR GINGER AND CARDAMON PROCESSING. LOCAL CURRENCY COSTS ESTIMATED AT \$1,050,132

EQUIVALENT TO BE PROVIDED UNDER REFINANCING FROM RASTRA BANK. DISBURSEMENT SCHEDULED FOR 3 YEARS.

10. PROCUREMENT TO BE CONDUCTED DIRECTLY BY ADBN; WILL BE IN ACCORD BANK'S GUIDELINES FROM ELIGIBLE MEMBER COUNTRIES. CONTRACTS ESTIMATED TO COST EQUIVALENT \$50,000 OR MORE INTERNATIONAL COMPETITIVE BIDDING; OTHER CONTRACTS ON BASIS BIDS CANVASSED FROM REASONABLE NUMBER SUPPLIERS AMONG BANK'S MEMBER COUNTRIES. SOME TRACTOR IMPLEMENTS WILL BE ESSEMBLED LOCALLY FROM IMPORTED COMPONENTS. COLD STORAGE FACILITIES AND GINGER AND CARDAMON DRYERS TO BE PROCURED ON TURNKEY BASIS.

11. BANK MISSION CONCLUDED ADDITIONAL TA FOR ADBN NEEDED. PROPOSED GRANT PROVIDES ENGINEER TO ASSIST FOR SIX MONTHS IN PREPARATION TENDER DOCUMENTS, PROCESSING AND EVALUATION OF BIDS; TWO OTHER EXPERTS FOR TWELVE MAN/MONTHS EACH, ONE FOR FINANCIAL MANAGEMENT AND ACCOUNTING; THE OTHER AGRICULTURAL MARKETING AND CO-OP MANAGEMENT. ADBN TO PROVIDE LOCAL COSTS OF OFFICE SPACE, SECRETARIES AND TRANSPORT.

12. PROJECT EXPECTED RESULT SUBSTANTIAL BENEFITS NEPALESE FARMERS IN TERAJ AND HILL AREAS, WITH ESTIMATED ECONOMIC RATES OF RETURN RANGING FROM 34.5 TO 39.5 PERCENT, AS RESULT EXPANSION CULTIVABLE AREAS UNDER IMPROVED PRACTICES, USE OF TECHNICAL INPUTS, INTENSIVE CROPPING PATTERNS AND IMPROVED PRODUCT FETCHING HIGHER PRICES; ALSO SOCIO-INSTITUTIONAL DEVELOPMENTS TO BE DERIVED MAKE PROJECT ECONOMICALLY AND FINANCIALLY SOUND AND JUSTIFIABLE. USADB SUPPORTS PROJECT AND RECOMMENDS FAVORABLE NAC ACTION.

13. IT SHOULD BE NOTED THAT ALTHOUGH AS RESULT BANK'S PREVIOUS TA, ADBN'S CONDITIONS HAVE CONSIDERABLY IMPROVED, USADB BELIEVES ADBN'S OPERATION WILL REQUIRE CONTINUOUS SCRUTINY FOR SOME TIME TO ASSURE THAT MANAGEMENT PRACTICES, LIQUIDITY AND RESERVE POSITION, ARREARAGE LEVELS AND OTHER FINANCIAL VIABILITY INDICATORS REMAIN FAVORABLE. ADDITIONAL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MANILA 03470 02 OF 02 251048Z

TA SIMULTANEOUS WITH SECOND LOAN, FREQUENT ADB REVIEW MISSIONS, EXPECTED TO HELP PROVIDE REQUIRED MONITORING THIS PROJECT. USADB WILL URGE BANK MANAGEMENT FOLLOW LOAN IMPLEMENTATION CLOSELY, ESPECIALLY PROCUREMENT.

14. REQUEST EMBASSY KATHMANDU'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
SULLIVAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TECHNICAL ASSISTANCE, DEVELOPMENT LOANS, CREDIT PROGRAMS, AGRICULTURAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 MAR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA03470
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740063-0497
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740318/aaaaaqoi.tel
Line Count: 330
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: MANILA 2034
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 08 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08-Aug-2002 by rowelle0>; APPROVED <15-Aug-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN AND TECHNICAL ASSISTANCE - SECOND AGRICULTURAL CREDIT PROJECT - NEPAL
TAGS: EAID, EFIN, RP, ADB-1
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005